BRITISH COLUMBIA RAILWAY ANNUAL REPORT 1983

CORPORATE STATEMENT

The British Columbia Railway (B.C. Rail) is a commercial Crown corporation, wholly-owned by the government of British Columbia. The railway operates exclusively within provincial boundaries, with interline connections to all rail-served points in North America.

The railway operates in a competitive environment and is principally engaged in the carriage of natural resources from the province of British Columbia to world markets. Until the end of 1983, revenue was largely derived from the transportation of forestry products. Near year-end, however, the opening of the new Tumbler Ridge subdivision ushered B.C. Rail into the business of coal transportation which, based on initial shipping contracts, will more than double the railway's total freight movements during the first year of operation.

B.C. Rail operates and maintains more than 1,700 miles of track between its southern terminal in North Vancouver, B.C. and Fort Nelson in the north. It employs approximately 2,600 people, owns or leases 130 locomotives and nearly 10,000 freight cars. With the completion of the Tumbler Ridge subdivision and acquisition of the B.C. Harbours Board Railway, B.C. Rail's assets now exceed $1 billion for the first time.

The front cover of this year's annual report is based upon an original oil painting of B.C. Railway's first electrically-hauled coal train on the Tumbler Ridge subdivision, by noted North Vancouver artist Robert Banks. To commemorate the opening of British Columbia's northeast coalfield and its importance to the provincial economy, the painting has been chosen as the basis for a strictly limited production of ceramic collectors' plates, which are currently in production by a Canadian manufacturer.

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FINANCIAL HIGHLIGHTS

(Dollars in Thousands)	1983	1982
Operating revenues	$ 205,446	$ 159,696
Operating expenses	$ 165,494	$ 141,817
Operating profit	$ 39,952	$ 17,879
Net income	$ 39,967	$ 18,584
Carloadings	148,769	128,577
Tons hauled	9,347,107	8,023,581
Number of employees at year-end	2,600	2,400

OFFICERS

M. C. Norris,
President and Chief Executive Officer
J. R. Clarke,
Vice-President – Finance
P. A. MacDonald,
Vice-President – Industrial Relations
N. A. McPherson,
Vice-President – Operations and Maintenance
G. L. Ritchie,
Vice-President – Administration and Secretary
A. C. Sturgeon,
Vice-President – Marketing and Sales

BOARD OF DIRECTORS

J. Norman Hyland, Chairman
Stanley M. Horner
E. Cecil Hurd
Glenn W. McPherson
M. C. Norris
Hon. Don M. Phillips
Bruce Rome
Robert E. Swanson

**Mr. Jack N. Fraine was a member of the Board until his death in October, 1983.*

INDEX

Financial Highlights, Officers, Board of Directors	1
Directors' Report	2
President's Report	3
The Year in Review	5
Management Report	8
Balance Sheet	9
Income and Deficit	10
Changes in Financial Position	11
Notes to Financial Statements	12
Five Year Review	16
The Tumbler Ridge Story	19

DIRECTORS' REPORT

Nineteen-eighty-three was an eventful year for British Columbia Railway.

Firstly, the company substantially completed the 81-mile subdivision to serve the two new coal mines at Tumbler Ridge. This major project was within its projected cost, and the first coal train rolled on November 1st, 30 days ahead of plan.

In addition, the company consolidated its management and clerical functions in the new B.C. Rail Centre on Lonsdale Quay in North Vancouver, a move which will contribute to the productivity of the 500 employees now located at this modern facility.

Complementing the completion of these capital projects, B.C. Railway also recorded another satisfactory operating performance, the details of which are set out in the Financial Statements and the President's Report.

As one of its major policy objectives, the Board of Directors strives to maintain an environment in which all levels of management are encouraged and supported to operate at maximum levels of innovation and efficiency and to relay this concept to all employees who carry out the myriad tasks involved in the B.C. Railway enterprise. The results of the last two years would indicate that commendable progress has been made, and all B.C. Railway employees can be justifiably proud of the results that have been achieved.

While 1984 will not witness the capital program of 1983, the railway will complete the electrification of the Tumbler Ridge subdivision and will continue to upgrade the main line from Prince George to Tacheeda (the junction of the Tumbler Ridge Subdivision and the main line). This upgrading work is required to handle the unit coal trains which are scheduled to reach a volume of more than nine million tons annually by the end of 1984.

The Board and management have carried on discussions with the Government concerning a restructuring of the company's total capital base. The Board is pleased with the decision taken by Government to eliminate the burden of the railway's historic debt by payment of $470 million, to be added to the company's sinking funds. This payment will increase the sinking funds sufficiently to provide for all future interest and principal payments on the historic debt up to the year 2005, when final payment is due.

In the 1982 Annual Report the Board described the agreement which had been entered into with the Government to finance the Tumbler Ridge construction by equity. However, in view of the decision outlined above concerning historic debt, it is no longer imperative that the Tumbler Ridge rail line construction costs be financed by equity and the Board and Government are jointly considering alternate forms of financing for that rail line. Substantial agreement has been reached and when accomplished, it is our opinion that the balance sheet will portray the present day B.C. Railway as a viable enterprise, properly structured and able to meet its responsibilities to the regions and the shippers which it serves.

It is with regret that I must record the passing of our friend and colleague Mr. J. N. (Jack) Fraine, a member of B.C. Rail's Board of Directors. Mr. Fraine served as Chairman of the Board between 1976 and 1980 and as a member until his death in October last year. He will be missed both personally and professionally.

On behalf of the Board of Directors,

J. N. Hyland

J. N. Hyland
Chairman

PRESIDENT'S REPORT

It is always a pleasure to report improved financial results and it is doubly rewarding when those results are accompanied by substantial construction and operational achievements.

Record financial results in 1983 can be attributed to two factors. First, recovery of the British Columbia central interior forest industry some six months earlier than anticipated in response to recovery of the U.S. housing market in early 1983 and second, by the rigorous application and management of cost controls and continuing operational efficiencies.

I am pleased, therefore, to report that for the first time in its 71-year history, the railway's net income exceeded $39.9 million which by a large margin surpasses the previous record net income of $18.6 million returned in 1982. Net operating income increased by $22.1 million over 1982 and that, coupled with provincial government support equal to that of 1982 for long-term debt charges, resulted in the net income reported above.

Substantial completion of the 81-mile Tumbler Ridge rail line on schedule and within budget in a time frame of 24 months, commencing in November 1981, was a major achievement of which B.C. Rail emloyees can be proud. This rail line to the remote northeast section of British Columbia, representing an additional rail crossing of the Canadian Rockies, has been built to a standard suited to the operation of heavy unit coal trains. The electrification of the line from Tacheeda to Tumbler Ridge, using the most advanced 50 kV technology was accomplished in an almost impossibly short time, as the decision to examine the feasibility of electrification was taken in January 1982, only 23 months prior to the scheduled movement of coal.

The undertaking and acceptance of the feasibility studies and approvals required from the Board of Directors, the Provincial and Federal governments were all in place by early August leaving only 16 months to design and construct the overhead catenary, the capacitor and substations, and to have the electric locomotives built. With the cooperation of the Provincial and Federal governments, and the extraordinary effort of talented people, both within B.C. Railway and from outside industry and government agencies, the work was completed to the point where on November 1, 1983 the first coal train moved from Tumbler Ridge to Prince Rupert one month ahead of schedule, using diesel-electric locomotives. Limited electrical operations began in December, as scheduled; full electric operations were to begin in February 1984. At year-end three electric locomotives were on site undergoing testing. The fourth electric locomotive was to be delivered in February, to permit full electric operation.

During 1983, substantial progress was made on the $76 million 4-year upgrading of the rail line between Tacheeda and Prince George. Completion of this project will optimize operating efficiency of the heavy, 98-car unit coal trains originating at Tumbler Ridge.

Federal and provincial legislation in 1983 has provided new opportunities for B.C. Rail. With passage of the Federal Government Bill C-155, B.C. Rail, along with the nation's two transcontinental railways, will have the opportunity to haul grain at realistic and economic rates with a favorable impact on the Company's future revenues.

Under the provincial B.C. Harbours Board Repeal Act, the railway acquired the assets of the former B.C. Harbours Board Railway operating between Cloverdale and the Roberts Bank superport in Delta, B.C. Under the Act, approximately $17 million of assets were transferred to B.C. Rail. It is expected that ownership of the B.C. Harbours Board Railway will have a favorable effect on the company's future earnings.

In March of last year, the railway consolidated its headquarters in the newly completed B.C. Rail Centre located in North Vancouver's attractive Lonsdale Quay development. The six-storey building, owned by B.C. Rail, represents our first venture

B.C. Railway's new headquarters at Lonsdale Quay, North Vancouver. The building was occupied in March, 1983, bringing employees from nine different locations together for the first time.

into a commercial building, which has approximately 43,000 square feet of space for leasing to outside parties. In addition, the consolidation of nine separate B.C. Rail locations in Greater Vancouver into a single headquarters has resulted in operating efficiencies, and has strengthened the family spirit of B.C. Rail employees.

The financial restructuring of the railway's capital base outlined in the Directors' Report is a major milestone in the history of B.C. Railway.

The assumption by the company of the long-term debt related to the construction of the Tumbler Ridge line, together with the freight surcharges on coal shipments, is an arrangement which will permit the railway to move forward on a commercially acceptable basis.

The year ahead promises to be every bit as challenging and demanding as the year just past. With the reorganization of the company's communications division, and an application before the CRTC to interconnect to B.C. Telephone facilities, we look forward to expanding our communications services to the public.

Deregulation of the railroad industry in the United States can have wide ranging effects upon B.C. Rail and its shippers and will require close attention by management.

The future promises to be exciting and fulfilling for B.C. Rail. The continuing programs of modernization and improvement will return worthwhile, tangible benefits to the railway's owners, the people and the government of British Columbia.

The achievements of the last few years were based upon the wholehearted and constant support of the Board of Directors, management and employees.

M.C. Norris

M. C. Norris
President and Chief Executive Officer

THE YEAR IN REVIEW

The company's 1983 operating profit of nearly $40 million represents an increase of 123 per cent over the 1982 operating profit of $17.9 million. Despite the generally slow rate of recovery in the overall provincial economy, carloadings other than coal movements increased by approximately 16 per cent during the year. In 1983, the railway handled 148,769 loaded freight cars, compared with 128,577 in 1982.

Shipments of northeast coal began in November, 1983, and during the last few weeks of the year, the railway carried 2,679 carloads of coal from the Tumbler Ridge minesites to Prince George. The coal was destined for the new deep-sea terminal at Prince Rupert and onward shipment to Japan.

B.C. Rail's 1983 revenues increased to $205.4 million from $159.7 million in 1982, an increase of 29 per cent. To this point, more than three-quarters of the railway's freight revenues have been directly or indirectly derived from the carriage of forest products, a dependence which will progressively lessen as coal traffic builds during 1984 and subsequent years.

Nineteen-eighty-three's substantial increase in carloadings and revenues is partly attributable to a surge in United States housing starts during the first half of the year and a demand for B.C. forestry products in U.S. and other markets that remained strong for the balance of the year.

Major contributing factors in the company's improved profitability, however, are its continuing emphasis on cost control and the efficiencies gained during the past 11 years of modernization and renewal.

The close of 1983 saw completion of the Tumbler Ridge subdivision, built to serve the coalfields of northeastern British Columbia. The last spike was driven on November 1st and followed immediately by the first coal train, a month ahead of schedule. A full account of the Tumbler Ridge line's construction and electrification starts on page 19 of this report.

Early in 1983, the railway committed $76 million to a four-year main line upgrading program between Tacheeda and Prince George. Work on this project began almost immediately and during 1983, good progress was made. The majority of the work is being done by B.C. Rail employees. It comprises tie and track replacement; construction of two passing sidings and extension of two others; bank widening; curve reduction; culverting; reballasting and the addition of a 'diamond' crossing at the Prince George, CN Rail interchange.

The upgraded 72-mile section is designed to accommodate the 13,000-ton, 98-car unit coal trains joining the mainline from the Tumbler Ridge subdivision. While trains will be electrically-hauled by B.C. Rail along the 81-mile branch line, diesel motive power will be used for the haul from Tacheeda to Prince George.

In mid-November, the first of seven GF6-C, 6,000 hp locomotives was delivered to B.C. Rail's North

Pile-driving on the Tumbler Ridge subdivision, prior to the erection of catenary masts required for electrified operations.

Vancouver yards. Built by General Motors' Diesel Division in London, Ontario, the locomotives are unique to B.C. Rail and already have attracted the interest of railways considering 50 kilovolt electrification elsewhere in the world.

During 1984, the 78-foot lengths of 100-pound rail laid on the Tumbler Ridge subdivision will be lifted and replaced with 115-pound continuous welded rail. The shorter sections of rail already were stocked by B.C. Rail. Studies showed this was the most time and cost-effective method of constructing the new line. It would also provide a break-in period for the new railbed, prior to installation of continuous welded rail. At year-end, stockpiling of continuous welded rail was under way and rail replacement was expected to begin in mid-1984.

In connection with the opening of the electrified line, a public awareness campaign dealing with the potential hazards of high-tension, overhead conductor systems was launched in the communities near the line.

At its November, 1983, meeting, the railway's Board of Directors approved construction of a new diesel shop in Prince George, at an estimated cost of $7.8 million. At the close of 1983, engineering design proposals were under study and work was expected to commence early in 1984.

In April, 1983, the railway suspended operations on its Dease Lake line, north of Fort St. James. A shift in emphasis of logging and milling activity led to curtailment of revenues from the region and railway studies indicated that approximately $26 million would be required to restore the line to acceptable operating standards. In the absence of a revenue base, it was determined that the cost of such upgrading could not be commercially justified.

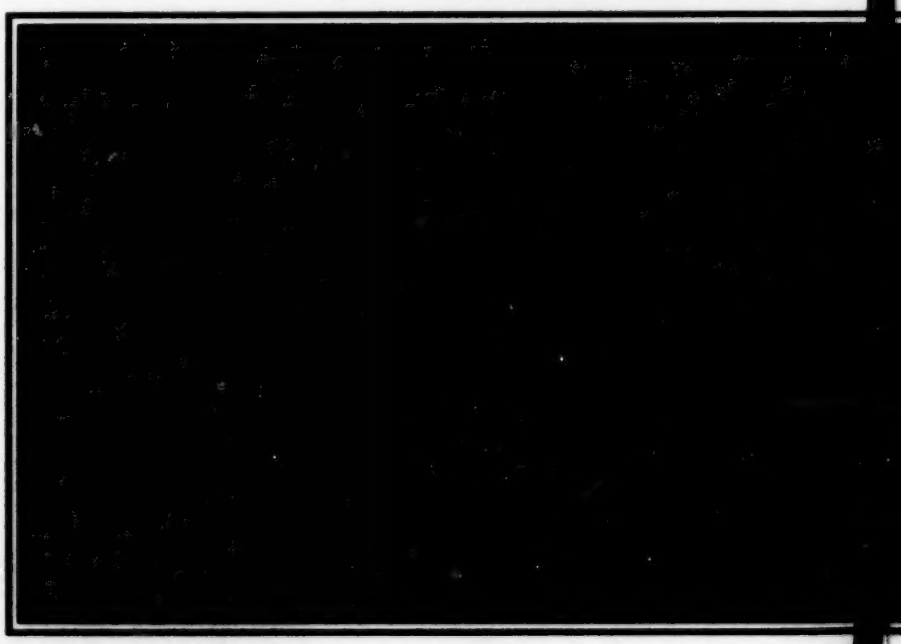
Heavy rains in November, 1983, destroyed the railway's Charles Creek bridge north of Horseshoe Bay on the mainline. While early engineering estimates predicted at least a two-week closure, maintenance of way crews worked non-stop in poor weather to reopen the line. As a result of their efforts, a temporary crossing of the creek was constructed in less than a week and mainline service suffered only minimal disruption.

Following negotiations with the City of Philadelphia, the railway obtained Board approval to lease three surplus Budd passenger cars from the city's transit authorities. The acquisition will allow some passenger service development, which has long been hampered by the lack of suitable equipment. Management is seeking government assistance to refurbish the passenger fleet, so that three levels of service for short, intermediate and long-haul journeys can be offered. Should satisfactory assistance be forthcoming, the work will be carried out in the railway's Squamish shops. When complete, passenger service can be marketed more vigorously than has been feasible in the past.

Consolidation of the railway's scattered headquarters functions took place in March, 1983, when the company moved into the new B.C. Rail Centre at Lonsdale Quay, North Vancouver. The move, which included relocation of the railway's complex communications and data processing equipment, was accomplished smoothly and with little disruption of vital services.

Work progressed satisfactorily on the company's five-year program of computer-assisted waybilling (CAW) installation. Now in its third year, the program provides fingertip access to waybill information and is a valuable tool in tracing and expediting customers' shipments. The railway also employs sophisticated systems for stores and inventory control and personnel and payroll management, both of which have been fully operational for some time.

Early in 1983, the company's communications department was established as a business centre, with a mandate to take commercial advantage of new legislation concerning competition with established telecommunications carriers. As a result, the company has applied to the Canadian Radio-Television and Telecommunications Commission for authority to interconnect to B.C. Telephone Company's public network. Approval of the application, expected late in 1984, will allow B.C. Rail to offer a full range of competitive network communications services. The railway pioneered microwave communications



in B.C. and for a number of years, has been providing several commercial and institutional users with limited services.

The B.C. Harbours Board Repeal Act became law near the end of 1983 and B.C. Rail has acquired the rail assets of the former B.C. Harbours Board Railway, which served the deep-sea coal terminal at Roberts Bank. B.C. Rail has maintained the 23-mile section of line since the coal port opened in 1970. As its new owner, the railway will manage the undertaking and benefit from revenues it produces.

As reported in the company's 1982 annual report, the province had advised the company to utilize short-term financing for construction of the Tumbler Ridge subdivision for a longer period than originally planned. Thus, with the support of the provincial government, the railway initiated short-term borrowing programs. At year-end, the programs allowed borrowings of up to $(CA)450 million for terms of less than 365 days, from Canadian financial markets. The program was well-received by the financial community and initial objectives were quickly achieved. During 1984, the company and the Government will jointly consider alternative forms of financing to extend the term of these borrowings.

During 1983, B.C. Rail's total expenditures on the acquisition of goods and services amounted to $244.5 million. Of this, 79 per cent was spent in the province of British Columbia; 10 per cent in other Canadian provinces and the remaining 11 per cent elsewhere. Whenever possible, the railway purchases supplies and services within its home province.

Developmental work on the company's Locate, Identify and Control (LIC) system of computerized train control continued throughout the year and at year-end, this innovative method of traffic management was being tested on the railway's 156-mile Squamish subdivision. The system is of interest to railways where traffic levels do not merit installation of Centralized Train Control (CTC).

At approximately $25,000 per mile, LIC installation is relatively inexpensive when compared with CTC which depending upon terrain, can cost between $150,000 and $200,000 per mile. The LIC system is attracting inquiries from railways the world over.

In the fall of 1983, B.C. Rail learned that an amendment to the proposed federal Bill C-155, dealing with abolition of the so-called Crow's Nest Pass grain rates, had been tabled in Parliament. While B.C. Rail is a relatively small grain carrier, it has traditionally transported the commodity at 'Crow' rates with the attendant adverse effect on its overall profitability. The amendment, now passed into law, allows the federal ministry of transport to negotiate with B.C. Rail on the same basis as it deals with the nation's two transcontinental carriers. The amendment to the Act was largely the result of vigorous representation to Parliament's Standing Committee on Transportation by the railway's senior management and supporting intervenors. When implemented, the new rates will favorably affect B.C. Rail revenues and raise the possibility of further northern development.

B.C. Rail continued to enjoy good labor relations during 1983, the final year of a 28-month contract ratified in 1981. Preliminary discussions between the railway and its seven-member Council of Trade Unions were expected to begin early in 1984.

As a result of the provincial government's compensation stabilization policy, salaries of senior executives and managers remain frozen and for all salaried employees, individual merit increases have been suspended.

The outlook for B.C. Rail continues to be encouraging and once the northeast coal shipments attain their potential levels, the additional revenues should have a favorable effect upon the company's financial performance. Existing coal shipment contracts call for movement of more than 9 million tons annually, which will more than double the railway's total annual freight tonnage.

Management is optimistic that the rate of provincial economic recovery will accelerate during 1984 and in doing so, pave the way for the continuation of the improvement in financial and operational performance by B.C. Rail.

MANAGEMENT REPORT

on Financial Statements

The financial statements of the British Columbia Railway Company have been prepared by management in accordance with accounting principles generally accepted in Canada for railways in a manner consistent with the previous year. Management is responsible for the accuracy, integrity and objectivity of the information contained in the financial statements and to ensure that the presentation conforms with generally accepted accounting principles.

The independent auditors, Peat, Marwick, Mitchell & Co., have been appointed by the Lieutenant Governor in Council to express an opinion as to whether these financial statements present fairly the railway's financial position and operating results in conformity with generally accepted accounting principles consistently applied. Their report outlines the scope of their examination and gives their opinion on the fairness of the statement presentation.

The Audit Committee of the railway directors appointed by the board meets periodically with financial officers of the railway and the external auditors to ensure that each group is fulfilling its obligations and to review and approve the annual financial statements prior to their release.

Management maintains an extensive system of internal accounting controls and believes that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an on-going basis by an internal audit department.

The Canadian Institute of Chartered Accountants recommends that supplementary information on the effects of changing prices be presented together with the annual financial statements of large publicly held enterprises. Management does not believe that the development of this information is practicable.

The financial statements have, in the opinion of the management of the railway, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in Note 1 of the Notes to the financial statements.

AUDITORS' REPORT

To the Lieutenant Governor in Council
Province of British Columbia

We have examined the balance sheet of British Columbia Railway Company as at December 30, 1983 and the statements of income and deficit and changes in financial position for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the railway as at December 30, 1983 and the results of its operations and the changes in its financial position for the fiscal year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Peat, Marwick, Mitchell & Co.

Vancouver, British Columbia, Canada
February 28, 1984

Peat, Marwick, Mitchell & Co.
Chartered Accountants

BALANCE SHEET

(Dollars in Thousands)

Assets	**December 30 1983**	December 31 1982
Current assets		
Cash	**$ 22,583**	$ 11,805
Accounts receivable	**30,733**	31,798
Materials and other items	**30,600**	28,780
	83,916	72,383
Property and equipment		
Road and buildings	**502,525**	466,219
Equipment	**228,770**	211,161
	731,295	677,380
Accumulated depreciation	**176,205**	160,457
	555,090	516,923
Tumbler Ridge branch line–Note 2	**477,262**	273,204
	1,032,352	790,127
Dease Lake extension–Note 3	**98,020**	98,020
	$1,214,288	$960,530

Liabilities and Shareholder's Equity	**December 30 1983**	December 31 1982
Current liabilities		
Accounts payable	**$ 107,875**	$105,794
Current obligations on long-term debt	**9,754**	9,456
	117,629	115,250
Notes payable–Note 2	**341,287**	178,517
Long-term debt–Notes 4 and 12	**634,338**	636,444
Shareholder's equity		
Share capital–Note 5	**257,688**	230,573
Contributed surplus–Note 6	**137,485**	113,852
	395,173	344,425
Deficit	**(274,139)**	(314,106)
	121,034	30,319
Commitments–Note 7		
	$1,214,288	$960,530

On behalf of the Board

S. M. Horner, *(Director)*

G. W. McPherson, *(Director)*

INCOME AND DEFICIT

(Dollars in Thousands)

	Fiscal Year	
	December 30 1983	December 31 1982
Revenues	**$205,446**	$159,696
Expenses		
Operations	**52,432**	46,883
Equipment	**56,468**	45,281
Road	**29,372**	25,759
Depreciation	**18,312**	17,436
Other	**16,682**	15,183
Government assistance–Note 10	**(7,772)**	(8,725)
	165,494	141,817
Railway operating income	**39,952**	17,879
Non-operating income (expense)		
Interest–Note 6	**(48,633)**	(52,303)
Debt servicing grant–Note 6	**46,367**	49,985
	(2,266)	(2,318)
Other income	**2,281**	3,023
	15	705
Net income	**39,967**	18,584
Opening deficit	**314,106**	332,690
Closing deficit	**$274,139**	$314,106

CHANGES IN FINANCIAL POSITION

(Dollars in Thousands)

	Fiscal Year Ended December 30 1983	Fiscal Year Ended December 31 1982
Source of cash		
Operations		
Net income	$ 39,967	$ 18,584
Depreciation	18,312	17,436
Interest expense	48,633	52,303
Government operating assistance	(7,772)	(8,725)
Government debt servicing assistance	(46,367)	(49,985)
	52,773	29,613
Decrease (increase) in non-cash working capital	(4,068)	12,376
	48,705	41,989
Government assistance		
Debt servicing	70,000	70,000
Other	15,571	10,720
	85,571	80,720
Long-term debt	18,185	6,621
Shares	27,115	45,000
Short-term notes	162,770	146,517
Funds held in trust	—	6,469
	208,070	204,607
Cash available for investing and financing activities	342,346	327,316
Use of cash		
Financing activities		
Interest expense	48,633	52,303
Debt retirement	20,291	27,121
	68,924	79,424
Invested in future operations		
Property and equipment	51,180	18,377
Tumbler Ridge branch line	211,464	224,725
	262,644	243,102
Cash used for investing and financing activities	331,568	322,526
Increase in cash	10,778	4,790
Opening cash	11,805	7,015
Closing cash	$ 22,583	$ 11,805

NOTES TO FINANCIAL STATEMENTS

December 30, 1983

1. Significant Accounting Policies

The accounting regulations prescribed by the Canadian Transport Commission for Canadian railways have been adopted to the extent that this is possible without submitting specific accounting policies and depreciation rates to the Commission for approval.

Class of business

The railway provides a fully integrated rail service within the Province of British Columbia. Services other than hauling freight are not of sufficient size to warrant separate reporting.

Road property

New construction is recorded at cost, net of Government grants received. Abandoned or relocated sections are removed at average unit costs. Elements of track structure installed during planned programs are recorded at cost and the material released is removed at amounts which approximate the average unit cost. Labour costs for programmed replacements are expensed as incurred.

All costs of constructing extension lines are capitalized to the date the line is certified operational by the British Columbia Ministry of Transportation and Highways. Capitalization of interest ceases and provision of depreciation commences on the date of certification.

Depreciation

Depreciation is provided for major categories of property and equipment on the straight-line basis at composite rates estimated to reduce the original cost to estimated salvage value over the average service lives of the classes. The group method is used for recording depreciation under which the original cost of assets retired less salvage value is charged against accumulated depreciation. No gain or loss on retirements, other than on accidental destruction of rolling stock and on disposal of land, is included in income. The original cost of principal assets less estimated salvage value is depreciated over the following number of years:

	Number of Years
Grades, surfacing and tunnels	100
Rails	50
Ties	20
Ballast	25
Bridges	30–80
Locomotives and power units	25
Freight cars	33

Repairs

Repairs and non-programmed replacements of track structure are charged against current operations. Betterments and major track relocations are capitalized.

Materials and supplies

Inventories of materials and supplies are valued at the lower of average cost or net realizable value.

Government assistance

Government assistance has been recorded in accordance with the accounting recommendations of the Canadian Institute of Chartered Accountants. Grants directly related to the construction or rehabilitation of road property have offset related road property capital expenditures. Operating grants have been deducted from the related expense accounts. Assistance provided by the Provincial Government in its capacity as shareholder has been credited to contributed surplus.

Amortization of bond discount on sinking fund investments

The discount on bonds issued by a related Provincial Crown corporation which are included as assets in the sinking funds and which the railway intends to hold to maturity is being amortized over the related life of the bonds. All other bond discounts will be recognized at maturity.

Income taxes

The railway is exempt from Canadian federal and provincial income taxes.

Transactions in foreign currency

Transactions originating in United States currency are recorded at the approximate exchange rates prevailing at the dates of the transactions. Assets and liabilities have been translated to equivalent Canadian amounts at the rate of exchange in effect on the balance sheet date.

Leases

Certain long-term lease transactions relating to the financing of equipment are accounted for as purchases of property. The capitalized lease obligations reflect the present value of future rental payments discounted at the interest rate implicit in the leases. The capitalized value of depreciable assets is depreciated over the related lease terms in equal annual amounts. Costs of all other leases are charged against operations as incurred.

Fiscal year-end

The fiscal year of the railway ends on the Friday closest to December 31. The 1983 fiscal year ended on December 30, 1983 and the 1982 fiscal year ended on December 31, 1982; both comprised 52 weeks.

2. Tumbler Ridge Rail Line

In 1981, the railway began construction of the 130 km Tumbler Ridge rail line to the coal fields located in northeastern British Columbia. Since inception of this project, the Government of the Province of British Columbia has purchased $61,000,000 share capital and the railway has arranged interim financing for the balance of the cost in the form of promissory notes due at various dates up to May 1, 1984 in the aggregate of $341,287,000. These notes bear interest at various rates up to 9.83%. It is intended that long-term financing will be obtained to replace these notes.

The total construction cost of the branch line, excluding capitalized financing charges, is currently projected at $455,000,000. As of December 30, 1983, the railway has incurred construction costs of $436,495,000. The operating certificate for the Tumbler Ridge rail line was received in February, 1984.

3. Dease Lake Extension

These costs consist of charges relating to the uncompleted Dease Lake extension. Construction was suspended in 1977 and there are no commitments to continue construction. In the event any portion of this extension is abandoned, the cost less any value recovered will be written off at that time.

4. Long-Term Debt

Long-term debt is not secured by assets of the railway. Bonds issued by the railway which are held in the sinking fund are not cancelled prior to maturity but for financial statement presentation have been deducted from the amounts shown as outstanding. As of December 30, 1983 the principal amount of bonds issued by the railway held in the sinking fund aggregated $5,841,000; (1982 – $5,320,000).

The Government of the Province of British Columbia has unconditionally guaranteed the principal and interest of the serial bonds, notes and sinking fund bonds and debentures.

Long-term debt outstanding, less current maturities, consists of the following:

	1983	1982
Sinking fund bonds and debentures		
1984–1988 – 3.25% to 4.75%	$ 34,204,000	
1989–1993 – 5.75% to 7.66%	67,479,000	
1994–1998 – 4.5% to 9.34%	247,052,000	
1999–2003 – 9.05% to 10.5%	338,218,000	
2004–2005 – 12.75%	45,000,000	
	731,953,000	$740,007,000
Less sinking fund assets net of railway's own bonds held	144,823,000	132,249,000
	587,130,000	607,758,000
Notes and bonds 16.875% – due 1986 and 1996	18,701,000	17,662,000
Serial bonds 4.875% – due 1988	1,138,000	1,072,000
Long-term lease obligations (Note 7)	37,123,000	19,408,000
	644,092,000	645,900,000
Deduct current portion	9,754,000	9,456,000
	$634,338,000	$636,444,000

Bonds totalling $185,327,000 which are held by the Minister of Finance for Canada contain a provision whereby under certain circumstances they may be presented for redemption upon six months notice given to the railway. The railway also has the right under certain circumstances to redeem bonds aggregating $476,433,000 at various dates.

Long-term debt retirements and sinking fund provisions excluding obligations under capital leases and early redemption options, for the four fiscal years ending with 1988 are $9,019,000, $18,005,000, $9,040,000 and $9,052,000.

Included in long-term debt outstanding at December 30, 1983 are obligations recorded at $32,306,000 with a par value of $25,913,000 payable in United States currency.

NOTES TO FINANCIAL STATEMENTS

Continued

5. Share Capital

Authorized share capital is 10,000,000 shares of $100 each. During the year, 160,000 shares were issued for $16,000,000 cash and 111,156 shares were issued at a par value of $100 for the acquisition of the British Columbia Harbours Board net railway assets, Note 11, increasing the number of shares outstanding to 2,576,885.

6. Interest Expense

The Government of the Province of British Columbia provided $70,000,000 to assist in paying the 1983 historic debt servicing charges of the railway. Of this amount, $46,367,000 has been applied to offset interest on long-term debt and the balance of $23,633,000 has been added to contributed surplus.

Interest expense is as follows:

	1983	1982
Interest on long-term debt and notes	$91,944,000	$84,200,000
Less:		
Sinking fund earnings	13,150,000	14,442,000
Interest capitalized	30,232,000	14,071,000
Interest earned on temporary investments	2,195,000	5,702,000
	45,577,000	34,215,000
	46,367,000	49,985,000
Interest on capitalized leases	2,266,000	2,318,000
	48,633,000	52,303,000
Less:		
Application of debt servicing assistance	46,367,000	49,985,000
Net interest	$ 2,266,000	$ 2,318,000

7. Commitments

The railway has significant lease commitments for rolling stock and additional minor lease commitments for equipment and real estate which expire at various dates prior to the year 2000. Certain of these leases transfer substantially all of the benefits and risks of ownership to the railway and are accounted for as capital assets.

The following is a schedule of future minimum rental payments at December 30, 1983 required under non-cancellable leases that have terms in excess of one year:

	Capital leases	Operating leases
1984	$ 5,464,000	$13,177,000
1985	5,464,000	10,512,000
1986	5,464,000	10,273,000
1987	5,464,000	10,225,000
1988	5,464,000	10,060,000
Later years	61,003,000	38,184,000
Total minimum lease payments	88,323,000	$92,431,000
Less:		
Executory costs	4,147,000	
Imputed interest	47,053,000	
Present value	$37,123,000	

Assets under capital leases recorded in the property and equipment accounts as at December 30, 1983 are as follows:

Equipment	$38,501,000
Accumulated depreciation	3,802,000
	$34,699,000

The railway is committed to purchase $13,000,000 of equipment to be received in 1984.

8. Contingent Liabilities

The railway is contingently liable with respect to pending litigation and claims which arose in connection with construction of the Tumbler Ridge rail line and in the normal course of business. In the opinion of management any liability that may arise will be capitalized or would not have a material adverse effect on future income.

9. Pension Plan

The majority of the railway's employees participate in a contributory pension plan and are entitled to limited vested rights prior to retirement. Independent actuaries performed an actuarial valuation of the plan as at December 31, 1981. Based on their report, the unfunded actuarial liabilities of the plan at that date approximated $8,600,000. These unfunded liabilities are being amortized over a period of 21 years from that date at a rate of $972,000 per annum.

The total pension expense for the year, including amortization payments was $6,450,000; (1982 – $5,591,000).

10. Government Assistance

Government assistance received was as follows:

	1983	1982
From the Province of British Columbia:		
Debt servicing (Note 6)	$70,000,000	$70,000,000
Other:		
Fort Nelson extension:		
Operating	5,359,000	5,837,000
Rehabilitation	393,000	271,000
Tumbler Ridge rail line electrification	2,500,000	—
Takla extension	375,000	—
Passenger operation	2,038,000	2,888,000
Passenger car modernization	—	700,000
From the Government of Canada:		
Tumbler Ridge rail line electrification	4,906,000	—
	15,571,000	9,696,000
	$85,571,000	$79,696,000

Of the above, the following were treated as a reduction in operating expenses:

Fort Nelson extension	$ 5,359,000	$ 5,837,000
Takla extension	375,000	—
Passenger operation	2,038,000	2,888,000
	$ 7,772,000	$ 8,725,000

11. Related Party Transactions

All of the outstanding shares of the railway are owned by the Government of the Province of British Columbia.

The railway acquired the railway operations of the British Columbia Harbours Board effective October 31, 1983. The assets transferred are recorded in the railway's accounts at their cost of $16,807,000, consideration for which was the issue of 111,156 shares and the assumption of certain liabilities.

Long-term debt is guaranteed by the Province and the Province provided assistance for the related debt servicing charges as described in Note 6. The Ministry of Finance of the Province acts as fiscal agent in the administration of the debt and the Superannuation Commission of the Province administers the railway pension plan. Fees are charged for both of these services. The majority of sinking fund assets comprise securities issued or guaranteed by the Province.

The railway received assistance from the Province during the year and is exempted from all taxes levied by the Province of British Columbia. All other transactions between the railway and the Province are at terms no more or less favourable than those with unrelated parties.

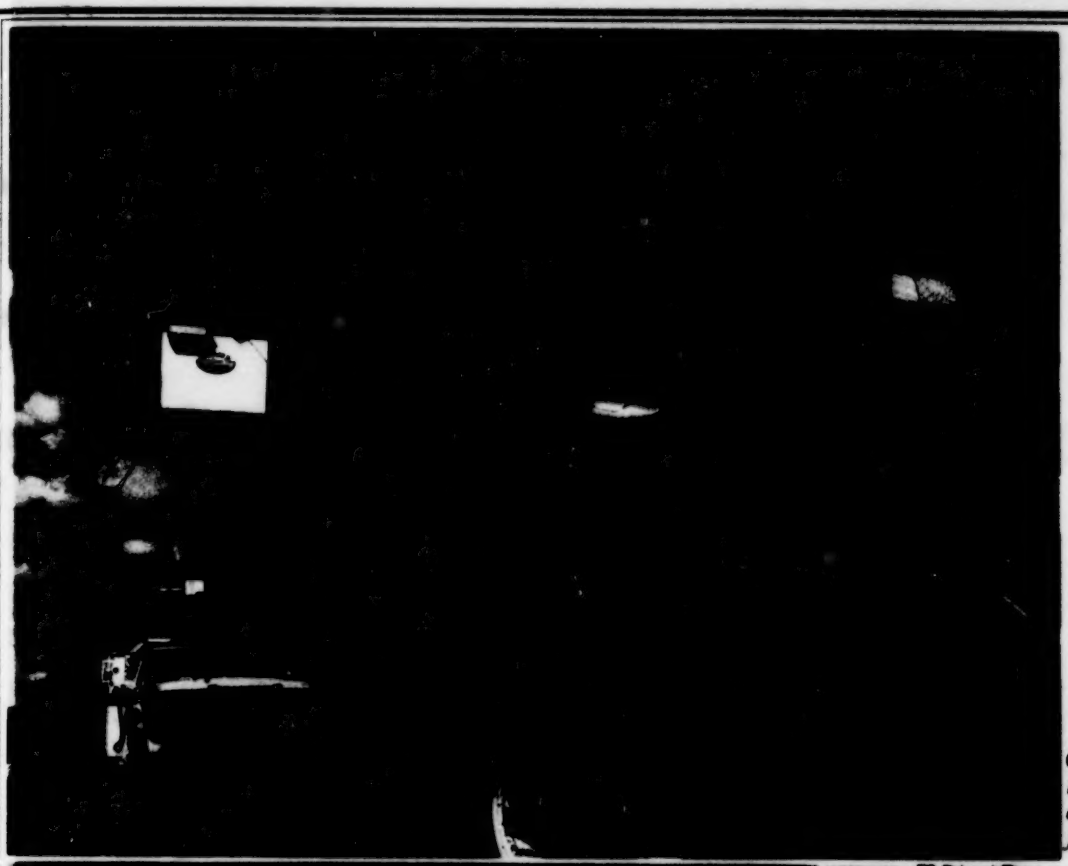
12. Subsequent Event

On February 20, 1984 the Minister of Finance presented the 1984 Budget of the Province of British Columbia. As part of this Budget, it is intended to provide payment of $470,000,000 in respect of all future interest and principal payments on the railway's existing long-term debt, excluding capital leases.

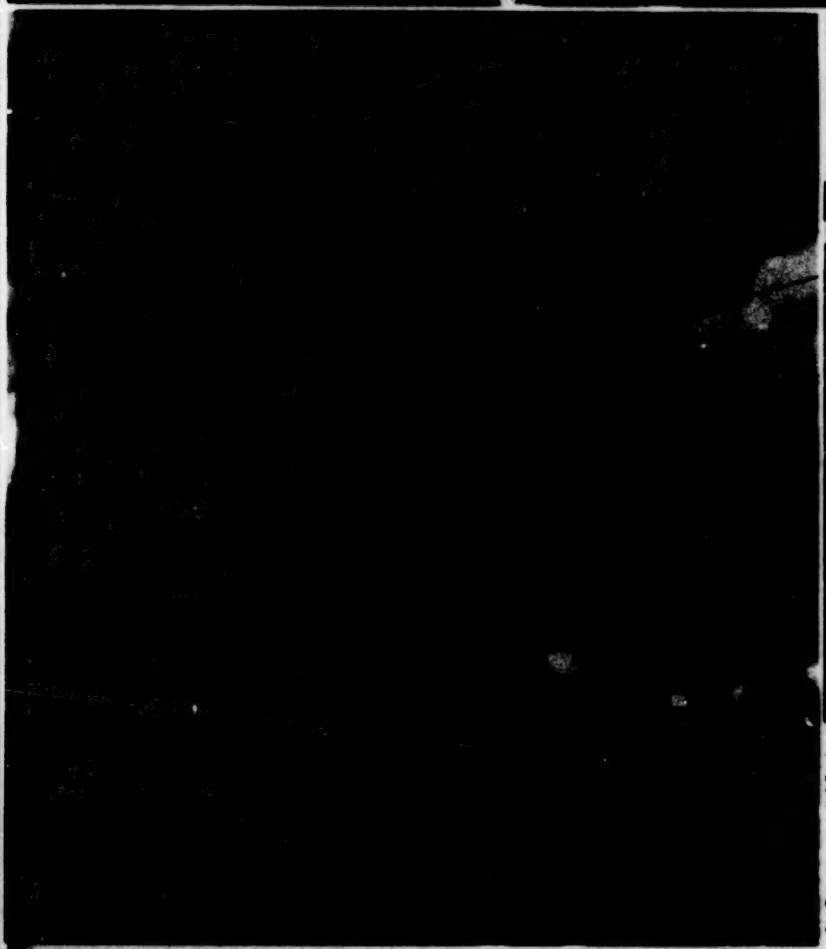
FIVE YEAR REVIEW

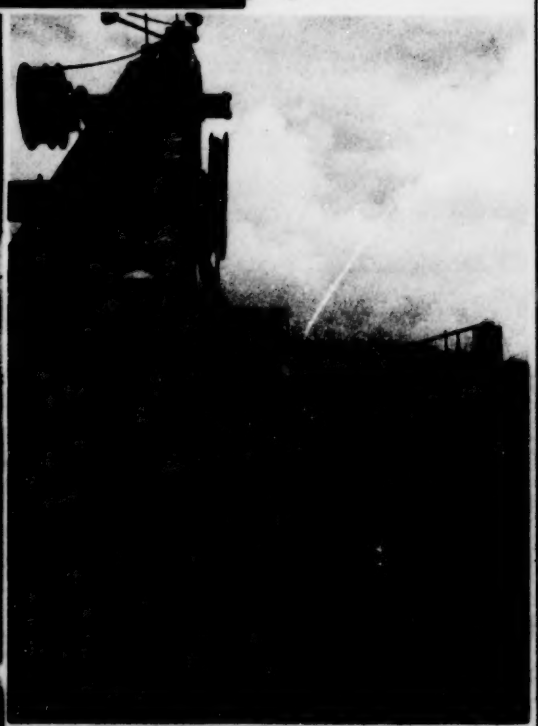
(Dollars in Thousands)

	FISCAL YEAR				
	1983	1982	1981	1980	1979
STATEMENT OF INCOME					
Revenues	**$205,446**	$159,696	$152,539	$143,726	$125,826
Expenses					
Operations	**52,432**	46,883	47,266	46,510	40,979
Equipment	**56,468**	45,281	46,146	43,567	39,192
Road	**29,372**	25,759	28,582	28,920	28,369
Depreciation	**18,312**	17,436	17,125	14,279	13,364
Other	**16,682**	15,183	14,176	9,462	8,354
Government assistance	**(7,772)**	(8,725)	(3,812)	(6,510)	(8,888)
	165,494	141,817	149,483	136,228	121,370
Railway operating income	**39,952**	17,879	3,056	7,498	4,456
Non-operating income (expense)					
Interest	**(48,633)**	(52,303)	(54,800)	(58,472)	(54,053)
Debt servicing grant	**46,367**	49,985	52,591	57,522	–
Net interest expense	**(2,266)**	(2,318)	(2,209)	(950)	(54,053)
Other income	**2,281**	3,023	2,318	6,094	1,462
	15	705	109	5,144	(52,591)
Net income (loss)	**$ 39,967**	$ 18,584	$ 3,165	$ 12,642	$(48,135)
OPERATING STATISTICS					
Total revenue cars loaded on line	**145,571**	126,031	131,624	143,609	144,398
Received from connections	**3,198**	2,546	3,358	4,634	5,525
Total carloadings	**148,769**	128,577	134,982	148,243	149,923
MOTIVE POWER					
Electric locomotives	**7**	–	–	–	–
Diesel locomotives	**123**	126	126	126	116
ROLLING STOCK FLEET					
Freight cars	**9,690**	9,811	9,855	9,966	9,862
Passenger cars	**9**	6	6	7	8
Boarding and work cars	**446**	493	504	509	538
TONS HAULED	**9,347,107**	8,023,581	8,323,124	8,663,746	8,599,215
EMPLOYEES AT YEAR END	**2,590**	2,400	2,500	2,800	2,950



Contract crews installing the 50,000-volt overhead conductor system in the fall of 1983.





A B.C. Rail tracklaying crew approaching loadout silos near Tumbler Ridge townsite.

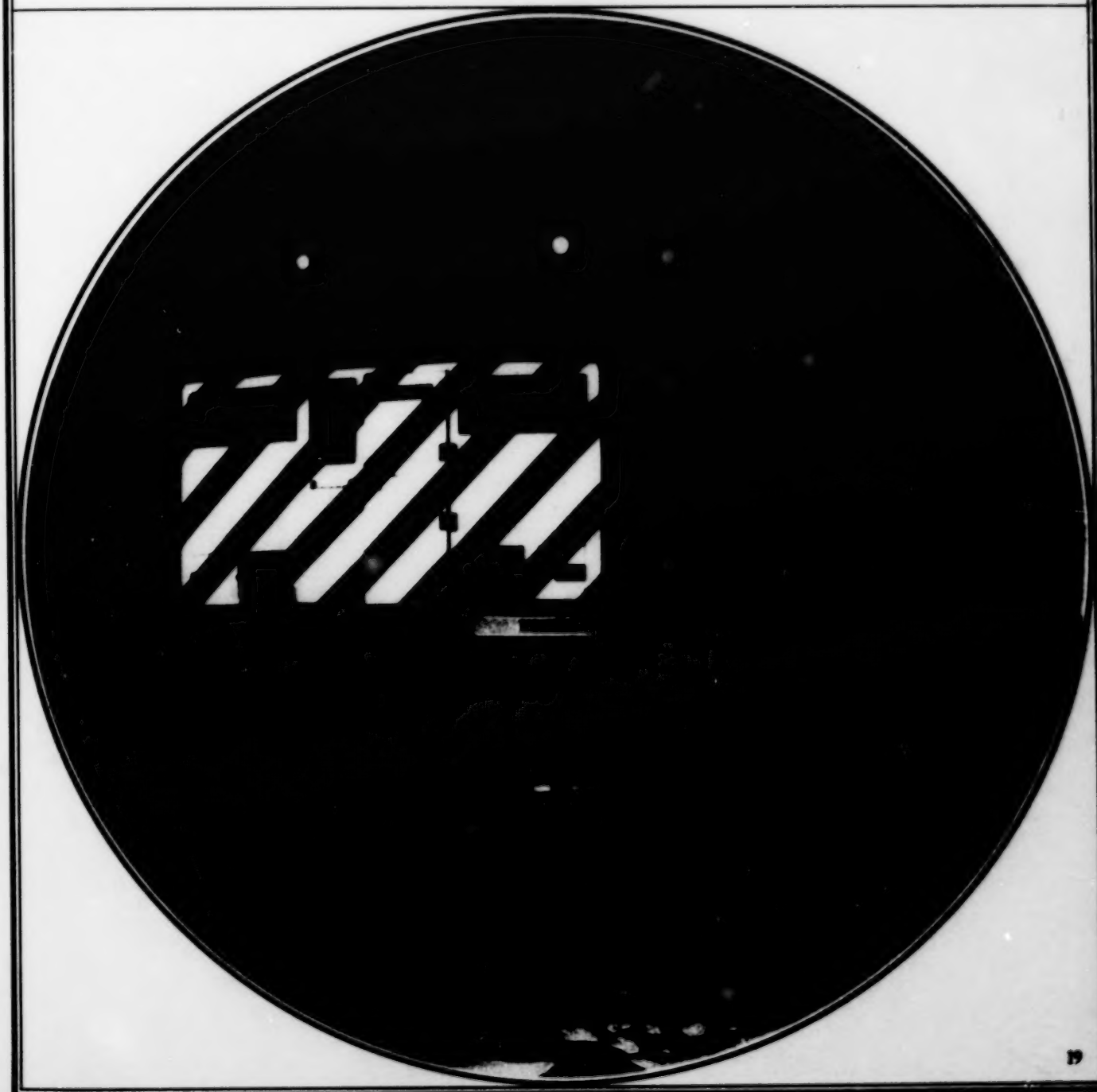
Wolverine bridge – one of 11 built on the Tumbler Ridge subdivision – under construction.

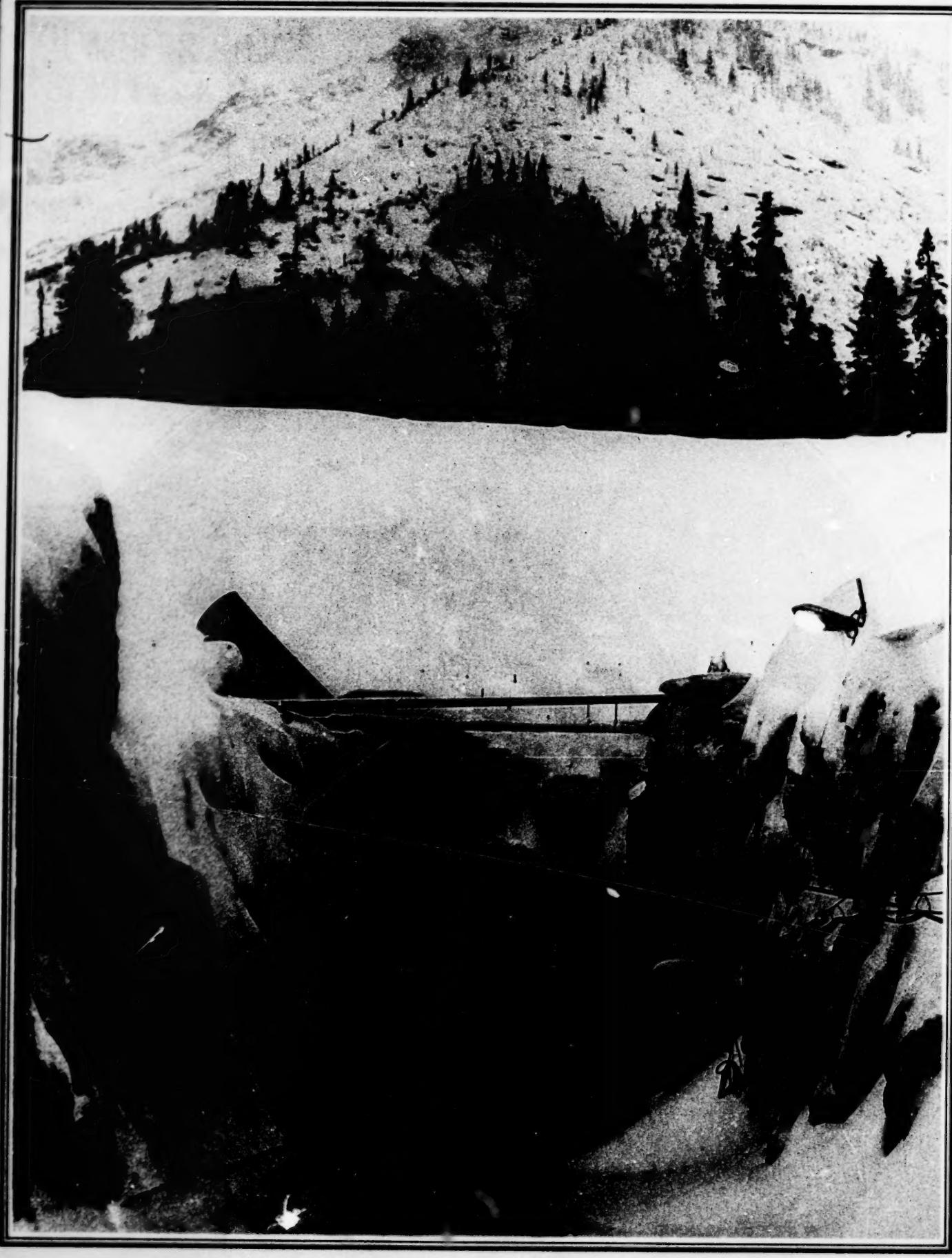
TUMBLER RIDGE SUBDIVISION

CHRONICLE OF EVENTS

Access road contracts let	•	January 13th, 1981
Preliminary grade work began	•	July 20th, 1981
Major tunnel contracts let	•	December 8th, 1981
First blast, Wolverine tunnel	•	March 16th, 1982
First blast, Table tunnel	•	April 5th, 1982
Decision to electrify ratified	•	August 5th, 1982
Short tunnel contracts let	•	August 20th, 1982
Mile-50 tunnel 'holed-through'	•	December 1st, 1982
Mile-53 tunnel 'holed-through'	•	December 11th, 1982
Wolverine tunnel 'holed-through'	•	May 28th, 1983
Table tunnel 'holed-through'	•	August 21st, 1983
Grade construction completed	•	September 9th, 1983
Last rail bolted	•	October 21st, 1983
'Last Spike' driven	•	November 1st, 1983
First (diesel) coal train operated	•	November 1st, 1983
First electric locomotive (No.6001) delivered	•	November 16th, 1983
Electric locomotive trials began	•	December 1st, 1983
Electric train operations began	•	March 1st, 1984

THE TUMBLER RIDGE STORY





TOMORROW'S RAILWAY TODAY

Construction of the Tumbler Ridge subdivision is regarded as one of the most formidable challenges the British Columbia Railway has had to face. A vital element in the $2.5 billion development of the province's rich northeastern coalfields, it was crucial that the 81-mile line be built in 24 months to meet rigid contractual commitments.

In fact, the line–through rugged Rocky Mountain terrain–was completed in only 23 months. And on November 1, 1983, the first coal train began its 600-mile journey to tidewater in Prince Rupert, a month ahead of schedule.

In less than two years, site access roads and work camps had been built in this wilderness area. Two major tunnels–5.6 and 3.8 miles in length–and two smaller tunnels were excavated. A total of 11 bridges had been erected and for the length of the line–from Tacheeda Junction to the mine loadouts at Tumbler Ridge–roadbed and track had been laid to the exacting standards required for unit coal train operation.

The Tumbler Ridge subdivision is the first electrified heavy rail freight system in Canada. With a 50 kilovolt(kV) overhead power supply, it is one of only four of its kind operating in the world today.

The North East Coal Development project was launched in 1981, when contracts between Japanese steel mills and two Vancouver-based coal producers–Quintette Coal Limited and Teck Corporation–were exchanged in the spring of that year.

The agreements followed several years of negotiation, during which time B.C. Rail had been conducting studies into the feasibility of building a branch line to link with its mainline at Tacheeda, B.C.

It had earlier been determined that B.C. Rail should become involved in the project only if the financial health of the railway could be protected. With that assurance in hand, it became clear that participation in the northeast coal project was in the best interests of the railway.

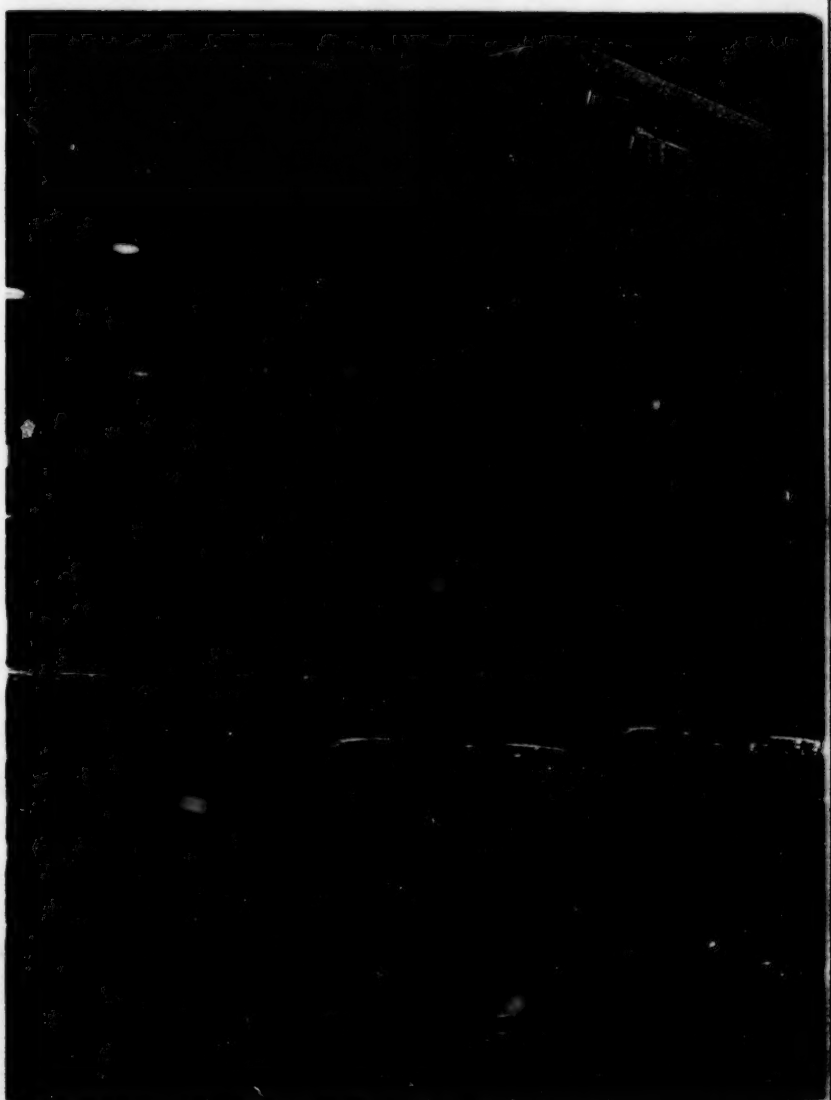
Traditionally, B.C. Rail has been largely dependent upon cyclical forest industry traffic as its main source of revenue. The opportunity to more than double its total freight tonnage and lessen that dependency by approximately 50 per cent was an appealing prospect.

As well as offering a stabilizing influence on financial performance, the diversification also would have a stabilizing effect on the railway's work force.

Consequently, the Tumbler Ridge Branch Line agreement between the railway and its owners, the government of British Columbia, was concluded in November 1981. The agreement formalized financial arrangements for the $455 million required to construct the line and although work on access roads had begun some months earlier, it also was the signal for full-scale construction to begin.

During the late 1970's it had been determined that a new deep-sea bulk-loading

A GF6-C, 6,000 hp locomotive under construction at General Motors' Diesel Division's plant in London, Ontario.



The eastern portal of the 5.6 mile Table Tunnel, left, one of two major tunnels built through the Rocky mountains during construction of the line.

terminal would be built at Ridley Island, in the Port of Prince Rupert, B.C. Prince Rupert already was linked to Prince George by the Canadian National Railway's mainline. Prince George also is the main base for B.C. Rail's northern operations.

The purpose of the Tumbler Ridge subdivision then, was to link the Tumbler Ridge minesites with the B.C. Rail mainline. The coal would be routed to Prince George by B.C. Rail and transferred there to CNR for onward routing to Prince Rupert and the steel mills of Japan.

Several routes for the subdivision were considered, among them an 'all-surface' route through the Rocky Mountains. This particular route, however, would have entailed extensive snow-shed construction and instead, despite some concern by the coal producers about potential delay risks in tunnelling, the Table-Sukunka-Wolverine Valley route was selected. The route called for construction of the 5.6 mile Table Tunnel, the 3.8-mile Wolverine tunnel and two short tunnels at mileboards 50 and 53.

The costs to be incurred in tunnelling were roughly equivalent to the cost of building snowsheds on the alternative route and based on the best advice of its engineers and consultants, the railway was confident the tunnels would not delay completion of the subdivision as a whole.

In December 1981, contracts for the two tunnels were let and in April of the following year–when the severe northern winter had sufficiently abated–tunnel drilling began.

At that time, grade construction started the previous year recommenced and in every respect, construction of the Tumbler Ridge subdivision was advancing quickly towards its December 1, 1983 deadline–then only 19 months away.

In the meantime, consideration was being given to the possibility of electrifying the line. The need to quote freight rates to facilitate negotiations between the coal producers and their customers in Japan, in the very short time frame available, had barred serious consideration to that point. Cost projections, therefore, had been based on the assumption that the subdivision would be conventionally operated, with diesel motive power.

As the project advanced, however, it became apparent that 50 kV electrification offered an attractive alternative. Without the addition of costly doors and ventilation systems in both major tunnels, it was known that efficient diesel-electric operation through the long tunnels could be threatened by the build-up of heat and fumes. The cost of such an installation would have been approximately $15 million and as design and construction progressed, the original plan became less appealing.

A 1982 study convinced railway management that 50 kV electrification was indeed feasible and that because of a number of factors already in place, incremental cost would be relatively small.

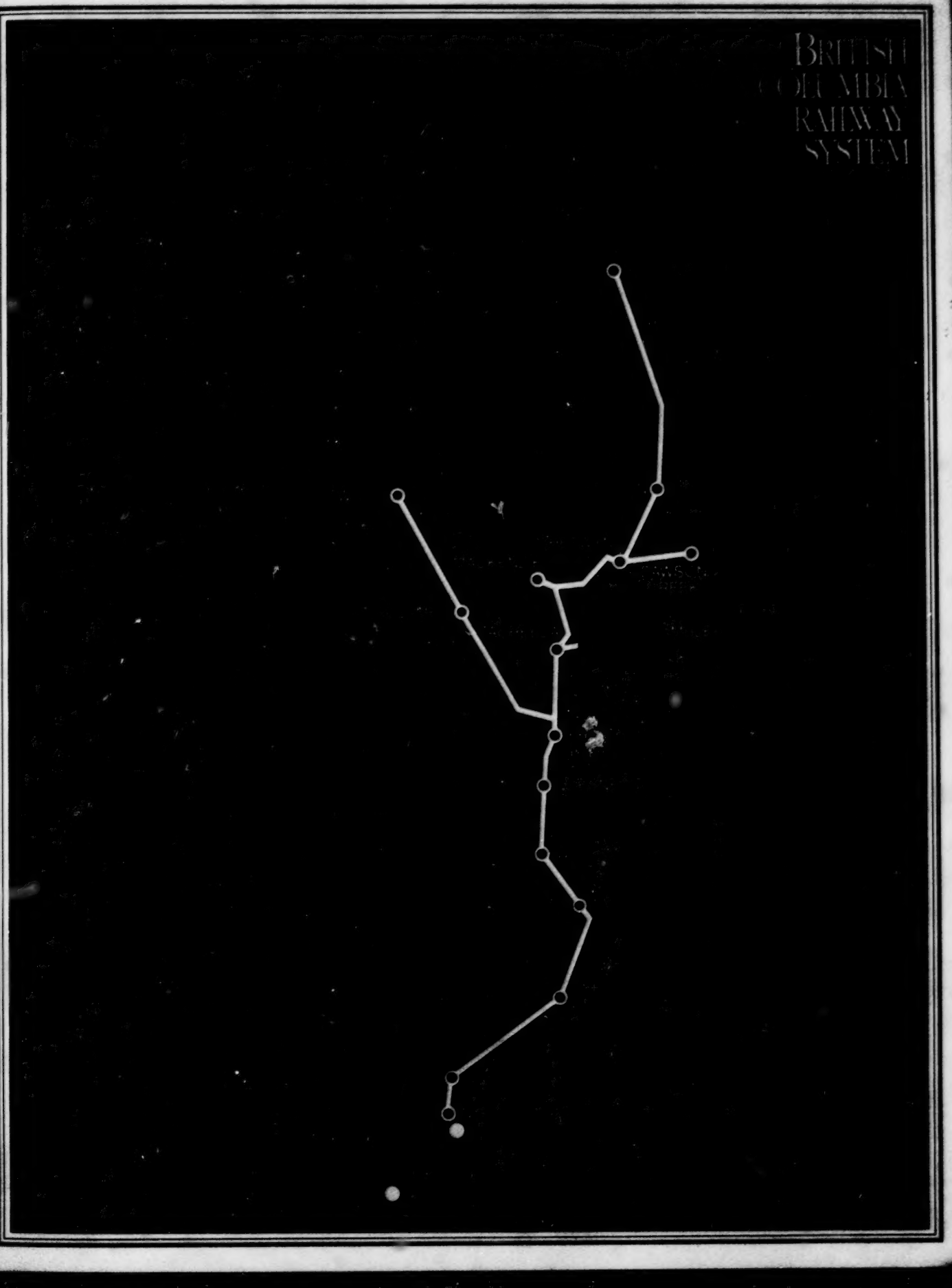
Abundant hydro-electric power, for example, was readily available from the Peace River dam and an energized 230 kV power transmission line serving the developing mines already existed, close to where a substation would be needed.

Compared with 25 kV electrified railways operating elsewhere in the world, a 50 kV system would require less than half the number of substations to power the overhead conductor system. A 25 kV system on the Tumbler Ridge line would have involved erection of transmission lines over mountain tops and made the cost of electrification prohibitive. Thus, the proximity of the hydro-electricity supply was a critical factor.

In addition, the federal and provincial governments–anxious to encourage the use of renewable energy as opposed to non-renewable resources–expressed willingness to partially fund the electrification program. As a result, a five million dollar grant from the senior level of government was matched by the provincial authority which, after elimination of tunnel ventilation costs left an incremental cost for electrification of only $4.9 million.

Cabinet authority for disbursement of the funds was speedily granted and in August, 1982, the decision to electrify was made. In the meantime, tenders for the supply of seven 6000 hp electric locomotives had been called and immediately the decision was announced, the contract was awarded to General Motors' Diesel Division in London, Ontario, in conjunction with ASEA of Sweden. Simultaneously, tenders were called for supply and construction of the catenary system and power sub-station.

The advantages of electrification


BRITISH
COLUMBIA
RAILWAY
SYSTEM

to B.C. Rail were considerable. A single, 6,000 hp electric locomotive for example, offered twice the horsepower of the diesel-electric units earlier considered. Maintenance costs were estimated to be 60 per cent less than those of diesel-electric units. In addition, the electric locomotives offered superior track adhesion and operating speeds on the gradients characteristic of the Tumbler Ridge line. At the same time, the proposed electric locomotives will annually conserve two million gallons of high-grade diesel fuel and operate more cleanly and quietly than their diesel counterparts.

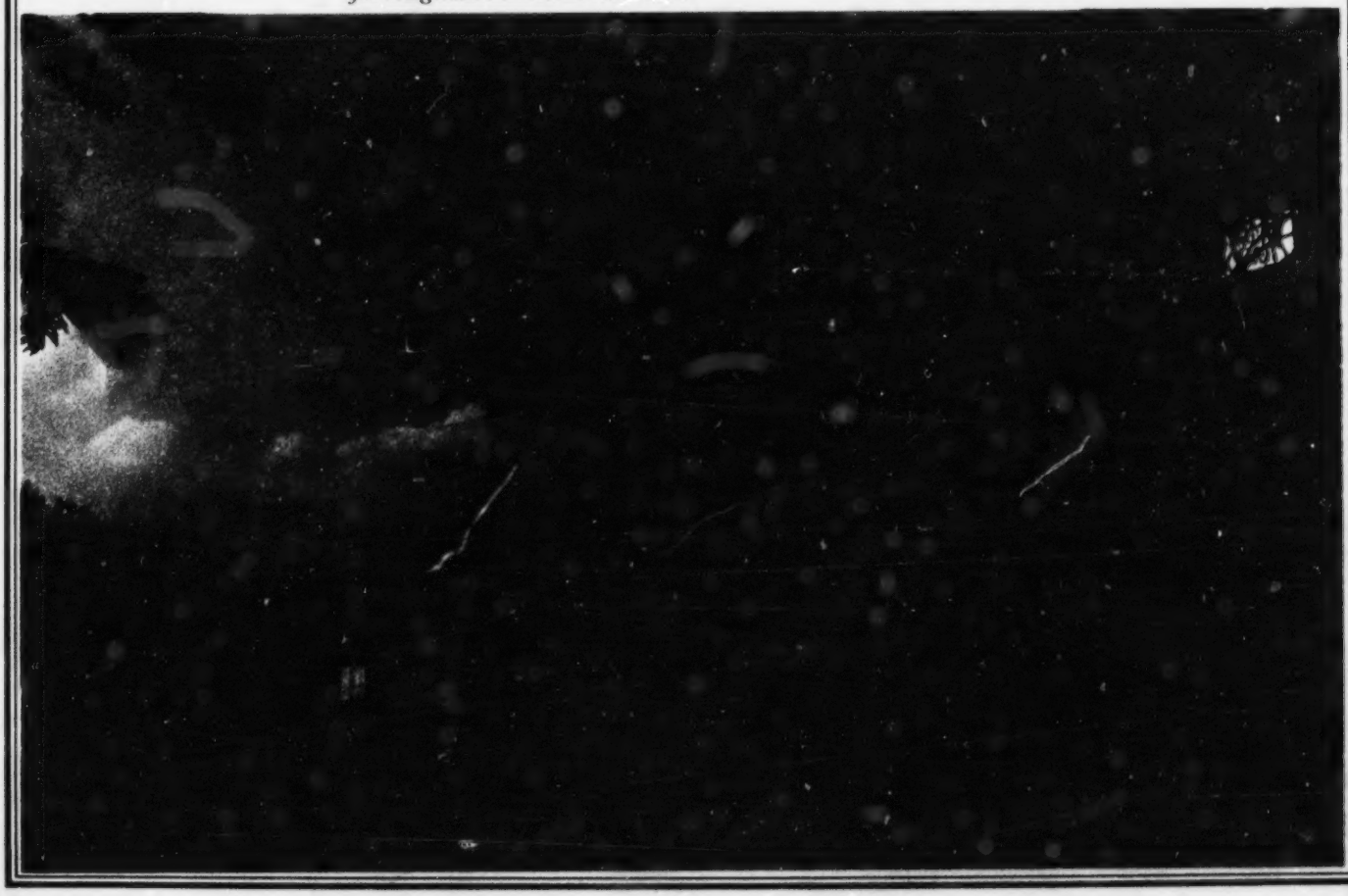
On May 28, 1983, two contractors working from opposite portals 'holed-through' the 3.8-mile Wolverine tunnel, just 13 and a half months after excavation had begun. The following month, finishing touches were applied to the two short tunnels at miles 50 and 53 and on August 21, hole-through of the 5.6-mile Table tunnel eliminated the last major hurdle to completion of the line.

Grade construction was completed in September and tracklaying, begun in April that year, followed suit in October. By that time, catenary and power sub-station construction was well in hand and from the former mountain wilderness, a modern railway was rapidly beginning to emerge.

Deliveries of 675 new, 100-ton coal cars – built in CNR's Manitoba shops and jointly-owned by the two participating railways – had begun and soon, it became apparent that the line could be operational earlier than anticipated, if conventional diesel power was temporarily used. At that time, erection of the overhead conductor system was incomplete and the first of the new electric locomotives were not yet due for delivery.

Nevertheless, it was important to shipper and bulk-terminal operator alike that shipments of bedding coal – to act as a permanent 'carpet' for the floor of the loading area – be shipped to Prince Rupert in advance of coal destined for Japan.

The Parsnip River bridge being winched into position after being constructed on the river bank.



It was then, with an air of relief and quiet satisfaction that on November 1, 1983, about 200 invited guests and railway employees assembled just east of Wolverine tunnel to witness the ceremonial 'last spike' and passage of the first coal train. Thirty days ahead of schedule – and only 23 months since construction and financial arrangements had been agreed – it was difficult for some to comprehend how much had been accomplished in so short a time.

For many others – who lived night and day with the challenge of unyielding deadlines, the perils of mud, flood and a harsh and unforgiving winter climate – it was a proud and emotional moment. Much remained to be done before the line could be declared complete and indeed, the onset of winter thwarted a last push to finish electrification of a final 15 mile section. Reluctantly, it was decided that rather than face the rigors of the approaching sub-Arctic winter, the remaining work would best be left until the spring of 1984.

Today, the Tumbler Ridge line is an operating reality. As 1984 began, the first three of seven electric locomotives were undergoing on-site test and crew training, with delivery of the remaining four scheduled to be completed within a few weeks.

The North East Coal Development is British Columbia's single largest industrial undertaking and in terms of job creation, generation of tax revenue and foreign exchange, it is of major economic importance to both the province and the nation. Without a modern, effective and reliable transportation system, however, the development could not have been seriously contemplated and B.C. Rail is proud to have played its part.

An electrically-powered coal train loading at Quintette.

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